Affin Bank Berhad

(5185 | ABANK MK) Financial Services | Finance

Overlays cut deeply into earnings

***Downgrade to* NEUTRAL**

(Previously BUY)

***Revised* Target Price: RM2.23**

(Previously RM2.55)

KEY INVESTMENT HIGHLIGHTS

- **Earnings were below our expectations**
- **We reduce our FY22/23/24 forecasts**
- **We are less optimistic: CIR is proving difficult to manage, Group has yet to find convincing replacement to AHAM's reliable income source**
- **Key risks: Failure to control CIR, Further surprise overlays**
- **Downgrade to NEUTRAL call with reduced TP of RM2.23**

Highlights from Affin Bank's 3QFY22 quarterly results:

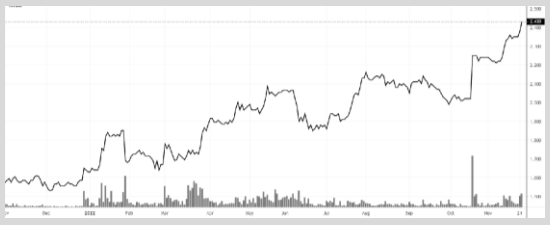
1. Affin Bank's reported a RM194m loss in the quarter, largely due to sizeable overlays and higher OPEX.
2. RA loans saw a dramatic reduction to 1.64% of total gross loan portfolio, largely driven by corporate and enterprise banking segment rundowns.
3. GIL improved to 1.91%, stemming from loan dilution and significant recoveries.
4. The Group surprised with massive credit provisioning of RM236m (RM210m in the form of general overlays) – to accelerate achieving its >100% LLC target.
5. 3MFY22's NIM expanded by +2bps to 2.01%. Management target of 2.04% for FY22 unlikely to be achieved.
6. 3MFY22 NOII was flat on a sequential quarter basis.
7. Vast loan growth of +17%yoy reported – community loans as prime catalyst.
8. Deposit growth of +13%yoy but CASA fell by only -7bps qoq.
9. 9MFY22's OPEX rose by +15%yoy. CIR for the same period was 65%, well above management's guidance.
10. 4Q dividend payout will based be on a BAU profit.

FINANCIAL SUMMARY

FYE Dec	FY20	FY21	FY22F	FY23F	FY24F
NII (RM m)	1,096	1,437	1,637	1,819	1,970
NOII (RM m)	1,168	804	411	446	453
Total income (RM m)	2,265	2,241	2,048	2,265	2,423
PPOP (RM m)	914	888	717	906	969
Core net profit (RM m)	230	527	188	555	622
Core EPS (sen)	10.9	25.0	8.9	26.3	29.5
Core P/E (x)	22.3	9.7	27.3	9.2	8.2
Gross DPS (sen)	3.5	12.5	25.9	7.9	8.8
Dividend yield (%)	1.4	5.1	10.7	3.2	3.6
BVPS (RM)	4.5	4.7	4.5	5.0	5.2
P/BV (x)	0.5	0.5	0.5	0.5	0.5
ROE (%)	2.4	5.4	1.9	5.6	5.8

RETURN STATISTICS	
Price @ 25 November 2022 (RM)	2.43
Expected share price return (%)	-8.0
Expected dividend yield (%)	+3.2
Expected total return (%)	**-4.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	9.9	6.8
3 months	22.6	17.5
12 months	43.5	46.6

KEY STATISTICS	
FBM KLCI	1,486.54
Syariah compliant	No
F4GBM Index	No
ESG Grading Band (Star rating)	
Issue shares (m)	2124.06
Estimated free float (%)	13.06
Market Capitalisation (RM m)	5,398.08
52-wk price range	RM1.62 - RM2.45
Beta vs FBM KLCI (x)	1.19
3-mth average daily volume (m)	1.03
3-mth average daily value (RM m)	2.26
Top Shareholders (%)	
LTAT	33.32
Bank of East Asia Ltd	23.87
Boustead Holdings Bhd	21.00

Analyst
Samuel Woo
samuel.woo@midf.com.my
03-2173 1669

Below our and consensus expectations. Affin Bank's 9MFY22 core net profit of RM61m made up 11% of our and consensus full-year forecasts respectively. The variance was due to a significant loan provision in the quarter, as well as weaker than expected NOII and OPEX management.

YTD. Earnings shrunk by -76%yoy due to sizeable overlays, high OPEX and tax charges.

3QFY22. Affin reported a quarterly loss of RM194m (2QFY22: RM129m profit), with surprise provisioning charges largely to blame.

Repayment assistance (RA) loans. Significant rundown: As of Sep-22, Affin Bank has RM937m worth of RA loans, which translates to 1.64% of its gross loan portfolio. Previously, in of Jun-22, this figure was RM3,592m, translating to 6.48% of its previous gross loans. Significant rundowns were from the corporate and enterprise banking segments: from >13% of its respective gross loan portfolio to within the <3% range.

Asset quality. The Group's GIL ratio improved to 1.91% (2QFY22: 2.28%, 3QFY21: 3.14%). Core drivers were sharp improvements in corporate and enterprise segments due to loan recovery and loan dilution. Recoveries amounted to RM183m in this quarter alone.

The Group intends to maintain its GIL ratio <2.00%. The Group's LLC stands at 109%, well above its initial FY22 target of 100%. This value will be maintained, as the Group deems it more attractive for investors.

GIL by segment. This community segment showed only muted improvement, driven largely by improvements in mortgage GILs. Note slight ticks upward in hire purchase, credit card and personal financing GIL despite industry rates remaining flattish from previous quarter. Management does claim that hire purchase spike was due to one corporate account – it should normalise in the coming quarter.

Provisioning. With proceeds from AHAM disposal at hand, the Group has announced a whopping RM236m worth of provision in the quarter – RM210m in the form of general overlays. This was done with the intention to achieve their 100% LLC goal as soon as possible. This brought 9MFY22's NCC to 74bps. Of the 74bps, 23bps were BAU provisions with the remainder from overlay contributions.

The Group's current pre-emptive provisions stand at RM498m, having risen from last quarter's RM300m.

Management guidance. Management clarifies that its previous FY22 GCC guidance of 30bps incorporates only BAU provisions – excluding general overlays. Management claims that a surprise overlay in 4QFY22 is highly unlikely, and it will maintain its 30bps BAU GCC target for the year.

NIM and NII. NIM expanded by +2bps qoq to 2.01% in 3QFY22 and averaging 2.01% in 9MFY22, up from 1.95% in 9MFY21. The Group was able to keep its cost of funds flattish on a sequential quarter basis, as it was able to accumulate sizeable CASA deposits within the quarter. Similarly, NII rose by +8%qoq and was up +24%yoy.

The Group is maintaining its guidance of 2.04% for FY22, though we believe that year-end deposit competition might prevent this from being achieved.

NOII. Stripping off AHAM contributions, 9MFY22 NOII was down -32%, suffering both poorer fee and investment income. 3QFY22 NOII was flattish on a sequential quarter basis.

Loan growth. Gross loans grew at a whopping +17%yoy (+11% YTD), exceeding the initial FY22 target of +12%. Community loans acted as the primary catalyst of growth, growing by +25%yoy. While management claims that it has not compromised its credit underwriting standards or lowered its lending rates to below market values, we remain slightly wary of whatever may be driving this unnaturally high level of growth.

Deposit growth. Group deposit growth expanded by +13%yoy. Community and enterprise banking segments served as core drivers. CASA ratio was somewhat sticky, falling only by -7bps qoq. Note the significant jump in CASA for the corporate banking segment within the quarter. Loan/deposit ratio has risen to 88%.

Cost efficiency. OPEX rose by 35% qoq in 3QFY22 and 15% in 9MFY22. The sharp sequential quarter increase was largely due to higher personnel and admin costs offsetting reductions in marketing and establishment expenses.

As a result, Affin Bank reported a weaker cost/income ratio (CIR) of 68.9% in 3QFY22, up considerably from last quarter's 61.4%. This averages to 65.5% in 9MFY22. Management does not believe its FY22 CIR target of <55% is achievable.

Do note that roughly RM17m incurred is one-off cost of divestment fees.

Capital ratios. The Group's CET-1 ratio currently stands at a high 16.3%. Upon utilising capital to fund its massive loan surge, it expect CET-1 to be in the upper 13-14% range.

No dividend announced. Affin Bank typically divvies in the fourth quarter. This will be based on BAU income sources, excluding one-off proceeds from its various disposals. Prior to this it announced a special dividend of RM500m – we have tweaked our dividend forecasts accordingly.

Earnings revised. We reduce FY22/23/24 earnings forecasts by -66%/-17%/-13% respectively. We incorporate weaker NOII and elevated cost-to-income ratios into our revisions. FY22 earnings also factor in higher credit costs from the surprise overlay.

Key risks. Key risks to earnings include (1) Failure to maintain a consistent/improving CIR, (2) Further surprise overlays, (3) Failure to provide alternate income drivers to compensate for the loss of AHAM's steady income contributions.

Valuation and recommendation. We are less optimistic on Affin Bank's mid-term prospects for several reasons: (1) Affin Bank seems to be straying further away from its initial CIR targets – especially with a proportion of IT spend expected to be sticky, (2) We note the possibility of some form of impact from Affin Bank's methods to drive its heavy loan and deposit growth – whether in the form of asset quality or NIM penalty, (3) The Group has yet to find a convincing, reliable source of income as replacement of AHAM.

As Affin Bank has largely been priced in, we downgrade our call from BUY to **NEUTRAL** with a reduced **TP of RM2.23**, as we peg its FY23 BVPS to a reduced P/BV of 0.45x (formerly 0.50x) to factor a poorer FY23F ROE outlook. (GGM assumptions: FY23F ROE of 5.8%, LTG of 3.5% and COE of 8.1%.)

EXHIBIT 1: QUARTERLY RESULTS

FYE Dec (RM m)	3QFY22	2QFY22	3QFY21	Yoy (%)	Qoq (%)	9MFY22	9MFY21	Yoy (%)
Net interest income	266	260	234	14%	3%	755	654	15%
Islamic banking income	190	164	134	42%	16%	504	390	29%
Other operating income	78	80	99	-21%	-2%	229	335	-32%
Net income	**534**	**504**	**467**	**14%**	**6%**	**1,488**	**1,378**	**8%**
OPEX	(368)	(309)	(273)	35%	19%	(974)	(847)	15%
PPOP	**166**	**194**	**193**	**-14%**	**-15%**	**514**	**531**	**-3%**
Loan allowances	(236)	(38)	(49)	379%	513%	(294)	(160)	83%
Other allowances	(80)	0	-	n.m.	n.m.	(60)	(64)	n.m.
JV & Associates	(5)	18	12	n.m.	n.m.	25	36	n.m.
Profit before tax	**(154)**	**174**	**156**	**-199%**	**-189%**	**185**	**343**	**-46%**
Tax & zakat	(39)	(45)	(40)	-3%	-13%	(124)	(90)	38%
Discontinued operations	1,070	29	27	n.m.	n.m.	1,126	105	n.m.
NCI	(4)	(11)	(10)	-56%	-60%	(25)	(38)	-34%
Reported net profit	**872**	**147**	**133**	**555%**	**494%**	**1,162**	**320**	**263%**
Core net profit	**(194)**	**129**	**116**	**-266%**	**-250%**	**61**	**253**	**-76%**
Total NII	**457**	**424**	**368**	**24%**	**8%**	**1,259**	**1,044**	**21%**
Total NOII	**78**	**80**	**99**	**-21%**	**-2%**	**229**	**335**	**-32%**
Gross DPS (sen)	22.6	-	-	n.m.	n.m.	22.6	-	n.m.
Core EPS (sen)	(9.0)	6.1	5.5	-263%	-248%	2.8	12.0	-76%
Gross loans	57,250	55,429	49,111	17%	3%			
Gross impaired loans	1,091	1,262	1,540	-29%	-14%			
Customer deposits	63,960	64,452	57,459	11%	-1%			
CASA	13,705	13,855	12,148	13%	-1%			

Source: Affin Bank, MIDFR

EXHIBIT 2: QUARTERLY FINANCIAL RATIOS

Financial Ratios (%)	3QFY22	2QFY22	3QFY21	Yoy (+/- ppts)	QoQ (+/- ppts)	9MFY22	9MFY21	Yoy (+/- ppts)
NIM (Reported)	**2.01**	**1.99**	**1.95**	**0.06**	**0.02**	**2.01**	**1.95**	**0.06**
NOII/Net income	14.6	15.8	21.2	-6.7	-1.2	15.4	24.3	-8.9
ROE (Ann.)	**(7.1)**	**5.1**	**4.9**	**-11.9**	**-12.2**	**0.7**	**3.5**	**-2.8**
Cost-to-income ratio	68.9	61.4	58.6	10.3	7.5	65.5	61.5	4.0
Net credit costs (Ann.) (bps)	177	30	41	136	148	74	45	29
GIL ratio	1.91	2.28	3.14	-1.23	-0.37			
Loan loss coverage	108.8	77.2	59.3	49.4	31.6			
CASA ratio	21.4	21.5	21.1	0.3	-0.1			
L/D ratio	87.7	84.5	83.9	3.8	3.2			
CET1	16.3	13.4	13.6	2.7	2.9			
Tier-1	17.7	14.9	15.3	2.4	2.8			
Total Capital	20.1	18.2	20.7	-0.6	1.9			

Source: Affin Bank, MIDFR

INVESTMENT STATISTICS

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest income	1,728	1,672	2,056	2,389	2,828
Interest expense	(1,035)	(779)	(1,046)	(1,234)	(1,575)
Net interest income	**694**	**893**	**1,010**	**1,155**	**1,253**
Islamic banking income	481	549	626	664	717
Other operating income	1,090	798	411	446	453
Total income	**2,265**	**2,241**	**2,048**	**2,265**	**2,423**
OPEX	(1,351)	(1,354)	(1,331)	(1,359)	(1,454)
PPOP	**914**	**888**	**717**	**906**	**969**
Loan allowances	(490)	(165)	(354)	(150)	(160)
Other allowances	(72)	(57)	(76)	(41)	(14)
Others	-	-	1,000	-	-
JV & Associates	42	45	34	43	47
Pretax profit	**394**	**710**	**1,320**	**758**	**842**
Taxation and zakat	(121)	(130)	(102)	(180)	(200)
NCI	(43)	(53)	(31)	(23)	(19)
Reported net profit	**230**	**527**	**1,188**	**555**	**622**
Core net profit	**230**	**527**	**188**	**555**	**622**
Total NII	1,096	1,437	1,637	1,819	1,970
Total NOII	1,168	804	411	446	453

BALANCE SHEET

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Cash and ST funds	5,511	7,564	8,512	8,850	9,043
Investment securities	13,875	15,911	17,841	21,627	23,923
Net loans	45,493	50,528	56,262	60,994	64,068
Other IEAs	-	-	-	-	-
Non-IEAs	4,656	4,425	4,740	7,236	7,840
Total assets	**69,535**	**78,429**	**87,356**	**98,706**	**104,874**
Customer & bank deposits	53,607	61,662	68,818	74,864	79,139
Other IBLs	3,462	4,001	4,531	4,568	4,151
Non-IBLs	2,829	2,833	4,476	9,131	10,935
Total liabilities	**59,898**	**68,495**	**77,825**	**88,563**	**94,224**
Share capital	4,902	4,969	4,969	4,969	4,969
Reserves & retained profit	4,664	4,920	4,515	5,513	6,017
Shareholders' funds	**9,567**	**9,889**	**9,484**	**10,482**	**10,986**
NCI	71	45	47	52	55
Total equity	**9,637**	**9,934**	**9,531**	**10,535**	**11,041**
Total liabilities & equity	**69,535**	**78,429**	**87,356**	**99,098**	**105,265**
Total IEAs	64,880	74,004	82,616	91,471	97,034
Total IBLs	57,069	65,663	73,349	79,432	83,289
Gross loans	46,273	51,417	57,592	62,394	65,518
CASA	11,082	13,540	16,113	19,174	21,092

FINANCIAL RATIOS

FYE Dec (RM m)	FY20	FY21	FY22F	FY23F	FY24F
Interest (%)					
NIM	1.71	2.07	2.09	2.09	2.09
Return on IEAs	2.82	2.42	2.63	2.74	3.00
Cost of funds	1.82	1.27	1.50	1.62	1.94
Net interest spread	1.00	1.15	1.12	1.13	1.06
Profitability (%)					
ROE	2.4	5.4	1.9	5.6	5.8
ROA	0.3	0.7	0.2	0.6	0.6
NOII/Total income	51.6	35.9	20.1	19.7	18.7
Effective tax rate	30.8	18.3	7.7	23.8	23.8
Liquidity & Efficiency (%)					
Cost-to-income ratio	59.6	60.4	65.0	60.0	60.0
Loan/Deposit ratio	91.2	85.9	85.7	85.8	85.7
CASA ratio	22.2	23.0	24.5	27.0	28.2
Asset Quality (%)					
GIL ratio	3.52	2.54	2.31	2.24	2.21
NIL ratio	2.59	1.92	1.51	1.40	1.27
LLC ratio	47.9	68.1	100.0	100.0	100.0
LLC (incl. reserves)	95.9	125.9	169.2	175.6	149.7
Gross credit cost (bps)	113	41	72	32	30
Net credit cost (bps)	106	34	65	25	25
% Floating rate loans	74.1	74.5	74.0	74.0	74.0
% Domestic loans	99.8	99.8	99.8	99.8	99.8
Capital (%)					
CET 1	14.5	14.4	14.0	13.8	13.8
Tier 1 capital	14.5	14.4	14.0	13.8	13.8
Total capital	20.5	19.7	19.5	19.1	19.0
Growth (%)					
Total NII	(5.0)	31.1	13.9	11.2	8.3
Total NOII	53.6	(31.2)	(48.9)	8.6	1.5
Core net profit	(52.8)	128.8	(64.3)	195.2	12.1
Gross loans	0.7	11.1	12.0	8.3	5.0
Customer deposits	(2.4)	17.9	11.7	8.2	5.2
CASA	13.6	22.2	19.0	19.0	10.0
Valuation metrics					
Core EPS (sen)	10.9	25.0	8.9	26.3	29.5
Gross DPS (sen)	3.5	12.5	25.9	7.9	8.8
Div payout ratio (%)	30.6	50.1	46.0	30.0	30.0
BVPS (RM)	4.5	4.7	4.5	5.0	5.2
Core P/E (x)	22.3	9.7	27.3	9.2	8.2
Dividend yield (%)	1.4	5.1	10.7	3.2	3.6
P/BV (x)	0.5	0.5	0.5	0.5	0.5

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology